

GAO

United States General Accounting Office

Report to the Chairman, Subcommittee on
Investigations, Committee on Armed
Services, House of Representatives

December 1991

MILITARY AID

Stronger Oversight Can Improve Accountability



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United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-242699

December 16, 1991

The Honorable Nicholas Mavroules
Chairman, Subcommittee on Investigations
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

This report discusses how the United States exercises its oversight responsibilities for U.S. military aid and suggests actions to improve accountability.

We are sending copies of the report to the Secretaries of Defense and State and to appropriate congressional committees. We will make copies available to others upon request.

This report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues, who may be contacted on (202) 275-4128 if you or your staff have any questions. Other major contributors to this report are listed in appendix II.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

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Executive Summary

Purpose

The United States provides billions of dollars of military aid annually to foreign countries. The Chairman, Subcommittee on Investigations, House Committee on Armed Services, requested that GAO review the management controls over the aid to (1) identify how the United States exercised oversight and (2) determine if more emphasis on accountability was needed. GAO visited seven countries to review accountability procedures for U.S.-funded military items.

Background

Over the years, the United States has furnished military supplies and equipment on a grant and concessional basis through different programs. The Foreign Military Financing Program, one component of U.S. military aid, provides grant funds that finance purchases of defense articles. For fiscal year 1991, almost \$5 billion in military aid was made available to 31 countries. By law, the Secretary of State is responsible for supervision and general direction of the military aid. The Secretary of Defense is responsible primarily for establishing military requirements and implementing programs involving the transfer of defense articles. Within the Department of Defense, the Defense Security Assistance Agency administers and supervises the assistance program. U.S. military personnel are assigned to Security Assistance Organizations in recipient countries to help administer the aid.

Results in Brief

The Defense Department is not closely monitoring recipient countries' use of U.S.-funded defense items, and it does not have reasonable assurance that countries are complying with legislatively required commitments regarding item use. Legislation requiring U.S. monitoring does not specifically apply to military aid that has been provided after fiscal year 1981. Defense Department regulations do not contain accountability standards or indicate what level of U.S. oversight is appropriate. U.S. observation and reporting on host country use of U.S.-funded items are limited and performed as a secondary duty.

Although recipient countries exert controls over U.S.-funded items, control weaknesses and instances of misuse demonstrate that the emphasis on accountability has not been sufficient.

Principal Findings

No Legal Requirement for U.S. Oversight

Military assistance provided after fiscal year 1981 has been subject to the eligibility conditions of the Arms Export Control Act. Under the act, military assistance may be given only if countries agree to use U.S.-funded military items for intended defense purposes and to maintain adequate security for the items. They cannot transfer the items to a third party without U.S. consent. However, the act does not require U.S. officials to monitor recipient country use of the items to ensure compliance, nor does it require that foreign countries agree to permit U.S. officials to observe end-item use. Regarding security requirements, the Defense Security Assistance Agency interprets the act to require the countries to agree to maintain the security only of items that are classified by the U.S. government.

U.S. Monitoring Is Limited

According to the Defense Department's Security Assistance Management Manual, Security Assistance Organizations are to observe and report on the use of U.S.-funded equipment and supplies as a secondary duty. The manual does not set accountability standards or prescribe how, when, and how much monitoring should be performed. In the countries GAO visited, U.S. military officials interpreted the oversight guidance differently. Some believed they were responsible for monitoring the use of U.S.-funded items, while others said they were not.

U.S. officials in all seven countries that GAO visited said that they conducted limited monitoring, but they did not have structured oversight programs to ensure accountability of U.S. military aid. Defense Department officials said that, because of staff limitations and security concerns, extensive monitoring was not feasible. Without oversight, the United States does not have reasonable assurance that conditions regarding use, security, and transfer of U.S.-funded items are being met.

Host Country Controls Do Not Ensure Accountability

In the seven countries GAO visited, the host militaries generally had accountability and control procedures. However, because of weaknesses in applying the procedures, U.S.-funded items could be vulnerable to misuse or diversion. For example, physical counts of items in warehouses differed from inventory records because some items were issued without their issuance being recorded. In Guatemala, scheduled inspections were not being performed.

The risks of diversion of military items are substantial. In 1989, nine Guatemalan officers were convicted for selling helicopter spare parts that may have been U.S.-funded. In the Philippines, the diversion of U.S.-funded helicopter parts has been a continuing concern. In 1989, GAO reported that the Salvadoran Air Force had transferred U.S.-funded fuel to third parties without U.S. consent.

Feasibility of Increasing Oversight

Defense Department officials said that increased U.S. monitoring of military aid (1) was unnecessary, (2) could be detrimental to U.S.-host country relations, and (3) might infringe on host country sovereignty. They also said that increasing U.S. monitoring would be difficult with existing staff resources. Although some of these arguments might be more persuasive in the case of military sales where a host country is paying for the items with its own funds, they are less convincing when the United States is providing the funds. This report demonstrates that more emphasis on monitoring and accountability is needed. Concerns over harming relations with host countries and sovereignty issues have been overcome in other U.S. programs. The Agency for International Development exercises controls over its economic assistance programs overseas. In addition, host country officials cooperated with GAO in its spot checks of inventory during its work for this report.

More emphasis on monitoring and accountability for military aid need not require additional staff. U.S. military officials in El Salvador have designed a program to improve accountability for military aid without adding staff. The Defense Security Assistance Agency could develop accountability standards and procedures appropriate for each country's program, with the amount of U.S. oversight depending on, among other factors, the adequacy of host country internal control systems, the vulnerability of the items to misuse or diversion, and the sensitivity and lethality of the U.S.-funded items. In some countries, little oversight may be appropriate, whereas in other countries, the Defense Department may have to take a more direct role in working with a host country to ensure accountability. Nevertheless, establishing the authority to monitor compliance is important because it provides leverage to ensure that U.S.-supplied items are not used for unauthorized purposes.

Monitoring for Previous Military Aid

Prior to fiscal year 1982, the United States provided defense articles directly to foreign governments under the Foreign Assistance Act. Two provisions that were applicable to this program, however, do not apply to current military aid. One provision required countries to agree to

permit U.S. observation of the end use of U.S.-furnished items, while the other, in section 623(a)(3), required Defense Department supervision of military grant aid end-item use. According to the Defense Department's implementing guidance, Security Assistance Organizations must maintain an inventory of major U.S.-funded items that is updated annually by the foreign country. Only two of the seven countries GAO visited were meeting this requirement.

Defense Department officials at the Pentagon and at the Pacific and European Commands acknowledged that conducting the annual inventories was not a priority. These officials indicated that many of the military items provided before fiscal year 1982 are now obsolete and/or inoperable. The Defense Department said it had reached agreement with key congressional committees to revise section 623(a)(3) to require Defense Department monitoring, rather than supervision, of end-item use.

Matters for Congressional Consideration

To impose a statutory requirement for U.S. oversight and place greater emphasis on accountability and control, the Congress may wish to modify the Arms Export Control Act, as amended, to require

- U.S. monitoring and oversight actions appropriate for each recipient country to ensure that conditions pertaining to use, security, and transfer of U.S.-funded items are met;
- recipient countries, as a condition to U.S. military grant aid, to permit U.S. representatives to review their internal control systems and the accountability, disposition, and use of U.S.-funded items; and
- recipient countries to agree to maintain adequate physical security of all U.S.-funded defense articles, including unclassified as well as classified items.

Recommendations

GAO recommends that the Secretary of Defense direct the Director of the Defense Security Assistance Agency to develop accountability standards and to revise the Security Assistance Management Manual to clarify what monitoring is required to provide reasonable assurance that recipient countries are meeting conditions set forth in the legislation. These standards should apply to military items provided through both pre- and post-1982 military aid programs.

Agency Comments

In commenting on a draft of this report, the Department of Defense concurred in the "spirit" of the draft report but disagreed with GAO's conclusions and recommendations. (See app. I.) The Defense Department believes that its current oversight practices are adequate and that additional legislation to improve assurance of compliance with existing laws is unnecessary. However, the Department said it would issue guidance to Security Assistance Organizations in the field to emphasize oversight and monitoring responsibilities.

After evaluating Defense Department comments, GAO continues to believe that current practices are not sufficient and that the Congress may wish to consider amending the legislation to ensure better oversight and controls over U.S.-supplied military items.

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Introduction

Security assistance covers a range of programs through which the United States, in pursuit of its national interests, aids other nations in defending and preserving their own national security. For example, under the Foreign Military Financing Program, the United States provides primarily grant aid to enable certain countries to acquire military equipment, services, and training to improve their defense capabilities. Over the last 4 decades, the program has undergone numerous changes. The program now includes what was previously known as the Foreign Military Sales Financing Program, the Foreign Military Sales Credits Program, and the Military Assistance Program.

From the 1950s through the early 1970s, the United States provided military equipment and services to foreign countries on a grant basis under the Military Assistance Program. In the 1970s, an increased emphasis on cash sales¹ resulted in a decline in the number of grant recipients, and the size of the grant program decreased steadily until fiscal year 1982 when grant aid had a resurgence. Beginning in fiscal year 1982, the Military Assistance Program funds were merged with recipient countries' cash deposits, and since then they have been used for payments of defense articles, services, and training purchased through the Foreign Military Sales Program.

Prior to fiscal year 1982, the United States provided over \$54 billion in military equipment and supplies to 73 countries through the Military Assistance Program. Since fiscal year 1982, the United States has provided about \$28 billion in military grant aid to 70 countries through the Foreign Military Sales Financing Program. In the early 1980s, the Congress and the executive branch expressed concern that high interest rates under the program were contributing to recipient country debt problems. This concern prompted the Congress to enact legislation in 1985 that authorized the forgiving of loans to Egypt and Israel. This legislation, in effect, changed military aid to these countries from loans to grants. In fiscal year 1988, program loans to Turkey and Pakistan were forgiven.

Most of the funds appropriated for fiscal year 1990 for the program were in the form of grants—\$4.3 billion of a total \$4.7 billion; the remainder was in the form of concessional loans. For fiscal year 1991, the United States made available \$4.6 billion in military aid, \$4.2 billion of which was for grants. Approximately \$1.9 billion and \$2.4 billion of

¹The purchases of U.S. military equipment, supplies, and training by foreign countries using national funds.

the appropriated grant funds for fiscal years 1990 and 1991, respectively, were for direct commercial sales—items acquired from outside of U.S. government stocks and not managed through Foreign Military Sales cases. Generally, these sales were not managed by the Security Assistance Organizations but were subject to U.S. export licensing requirements administered by the Department of State. According to the Defense Security Assistance Agency, grant aid, in the form of Military Assistance Program merger funds, was not used for commercial sales prior to fiscal year 1990. Since then, 10 countries (Egypt, Greece, Israel, Jordan, Morocco, Pakistan, Portugal, Tunisia, Turkey, and Yemen) have been authorized to use military aid grant funds to finance commercial sales contracts.

The Congress establishes the laws for the oversight of security assistance provided to foreign countries. The Secretary of State has statutory responsibility for supervision and general direction for security assistance,² and the Defense Security Assistance Agency implements the programs for transferring defense items and services.³ Under the direction of a U.S. ambassador, a U.S. representative, usually a Security Assistance Organization official, manages the security assistance program in each country. U.S. officials from unified commands work in conjunction with Organization personnel to help manage these programs.

According to State Department officials, the State Department has overall responsibility for security assistance programs. They indicated that their primary monitoring efforts have focused on commercial sales of military items that are subject to export licensing requirements. They may conduct investigations involving suspected illegal transfers of U.S.-funded defense items. However, they generally rely on the Defense Security Assistance Agency and its Security Assistance Organizations to monitor military aid that has been provided on a grant basis unless allegations of misuse arise.

²Section 622 of the Foreign Assistance Act of 1961, as amended, and section 2 of the Arms Export Control Act.

³Section 623 of the Foreign Assistance Act and section 42 of the Arms Export Control Act.

Prior GAO and Congressional Concerns

During previous reviews in El Salvador,⁴ Liberia,⁵ and the Philippines,⁶ we found that U.S. controls over host countries' use of security assistance were limited and that recipient country control procedures were often inadequate to ensure that U.S. aid was used as intended.

In February 1989, a task force organized by the Chairman and the Ranking Minority Member of the House Committee on Foreign Affairs concluded that accountability for security assistance needed to be improved and proposed reforms that included strengthening oversight of grant aid in foreign countries. In June 1989, the Committee proposed legislation that would improve oversight. The proposed legislation would require at least one member of each Security Assistance Organization in each country to be given responsibility primarily for monitoring the U.S. security assistance program in that country. This amendment was passed by the House, but the Senate never completed action on it.

Objectives, Scope, and Methodology

The Chairman, Subcommittee on Investigations, House Committee on Armed Services, asked us to review the management controls of U.S. security assistance programs. Our objectives were to identify how the United States exercised its oversight responsibilities and to determine if increased emphasis on accountability was needed.

In Washington, D.C., we did our work at the Department of State's Office of Defense Relations and Security Assistance and at the Defense Security Assistance Agency where we examined the amounts and types of aid provided to various countries and discussed how the United States monitored the use of U.S.-funded items. We also reviewed legislation pertaining to controls for use of military aid.

We did fieldwork in the Philippines, Portugal, Thailand, Honduras, Guatemala, Barbados, and Antigua. In each country, we met with Organization officials, defense attaches, political-military advisers, other officials from the U.S. embassies, and host country officials representing the various armed services. We reviewed briefing documents, cables, and correspondence on U.S. and host country accountability practices and

⁴El Salvador: Accountability for U.S. Military and Economic Aid (GAO/NSIAD-90-132, Sept. 21, 1990).

⁵Liberia: Need to Improve Accountability and Controls Over U.S. Assistance (GAO/NSIAD-87-173, July 16, 1987).

⁶Accountability and Control Over Foreign Assistance (GAO/T-NSIAD-90-25, Mar. 29, 1990).

procedures. We also visited Army, Navy, and Air Force installations and warehouses in most of the countries to observe security controls and safeguards designed to prevent pilferage of material. We tested warehouse inventory controls by comparing actual quantities and storage locations with the quantities and the locations shown in the inventory records. We did not visit some major recipients of security assistance such as Israel, Egypt, Pakistan, and Greece because of security concerns and restrictions associated with the war in the Persian Gulf. We also interviewed U.S. military officials at the Pacific Command in Hawaii and the European Command in Germany to obtain their views on the adequacy of host country controls for U.S. military aid and the extent of U.S. oversight.

We conducted our review from August 1990 to June 1991. Our work was conducted in accordance with generally accepted government auditing standards.

Stronger U.S. Oversight Can Improve Accountability

U.S. observation and reporting on host country use of U.S.-funded items are limited and performed as a secondary duty, in part, because of the lack of a specific statutory requirement for U.S. oversight for military aid. Recipient countries we visited had accountability and control procedures. However, U.S.-funded items could be vulnerable to misuse or diversion as a result of weaknesses in applying these procedures. In several instances, U.S. officials reported actual or alleged diversions of equipment and supplies.

Legislation Does Not Require U.S. Oversight

Oversight of military items provided through U.S. grant aid has been limited, partly because of changes to the U.S. military aid program. The Foreign Assistance Act of 1961, as amended, which provides for U.S. supervision of the end use of military items and requires recipient countries to permit continuous U.S. observation of such items, applies to defense articles furnished before fiscal year 1982. Military aid, under the Foreign Military Financing Program beginning in fiscal year 1982, is subject to the Arms Export Control Act, which does not contain similar provisions or specifically require U.S. oversight.¹

Beginning in fiscal year 1982, military assistance funds were merged with funds provided by a recipient country for Foreign Military Sales purchases under section 503(a)(3) of the Foreign Assistance Act. Although not expressly stated in the act, such purchases, even though financed in part or in whole by grant assistance, are subject to the eligibility conditions of the Arms Export Control Act, not to those of the Foreign Assistance Act. The legislative history of this section² supports the view that military assistance funds that are merged with funds for such purchases are to be obligated and expended under the Arms Export Control Act.

The Defense Security Assistance Agency applies the Arms Export Control Act eligibility criteria to purchases using military aid grant funds. The criteria require that a recipient country agree (1) not to transfer U.S.-provided equipment to a third party without U.S. consent, (2) not to use articles for unintended purposes, and (3) to maintain the security of such articles and provide substantially the same degree of security

¹Under section 3(e) of the Arms Export Control Act, the Secretary of State shall report to the Congress information regarding an unauthorized transfer of any defense article. Pursuant to section 38(g)(7) of the act, the State Department must develop standards for identifying high-risk exports for regular end-use verification. Neither the standards nor any statute requires any agency to conduct regular verification of the disposition of defense articles purchased under the act.

²H. Rept. 884, 96th Cong., 2nd sess.

protection afforded to such articles by the U.S. government. The act does not stipulate that the Defense Department must require recipient countries to permit U.S. officials to observe and review the use of the U.S.-supplied defense articles. Therefore, there does not appear to be a statutory requirement to ensure that countries allow U.S. monitoring.

The Defense Security Assistance Agency interprets the act's provision regarding security to apply only to items that are classified by the U.S. government. Defense Department officials acknowledged that recipient countries should safeguard all U.S.-funded military items as a matter of good management practice. In contrast to the Defense Security Assistance Agency's viewpoint, some Security Assistance Organization officials told us that they assumed that the act applied to the physical security of all U.S.-supplied defense articles.

Defense Department Does Not Ensure Accountability

The United States does little to ensure that recipient countries are meeting eligibility conditions. This is partly a result of ambiguous Defense Department regulations and limited monitoring efforts by Security Assistance Organizations.

According to the Security Assistance Management Manual, Organizations are required to do the following:

"Observe and report on the utilization by the host country of defense articles, defense services, and training of U.S. origin. This function should be carried out as a secondary duty. How and to what extent such observation and reporting should and can be done will vary considerably from country to country, and thus no standard procedures are prescribed. The process for accumulation of information should use all available resources (e.g., country reporting or documentation, TDY [temporary duty] personnel assigned in country performing other duties, other elements of the U.S. Diplomatic Mission, and spot checks during the normal course of SAO [Security Assistance Organization] duties and travel). Reporting should be done on an exception basis through established security assistance channels. Records, as accumulated, should be kept on file at the SAO."³

The manual does not provide adequate detail as to how, when, and how much monitoring should be performed. Furthermore, the manual does not contain standards specifying the types and amounts of control and

³Security Assistance Management Manual (Department of Defense 5105.38-M, section 300-4).

accountability mechanisms that a host country should apply to U.S.-funded military items. The Organizations we visited were inconsistent in their interpretations of the manual's oversight guidance. For example, according to Organization officials in Honduras, in-depth monitoring is not performed because the regulations are ambiguous regarding monitoring responsibilities. These officials believe that clarification is needed as to when their responsibility ends and a host country's responsibility begins. Organization personnel in Guatemala acknowledged that they did have oversight responsibilities but said that staff restrictions hindered such oversight. Some U.S. officials at the Pentagon and the countries we visited said that their responsibility for monitoring military aid items ended when the items were delivered to a host country. In addition, unified commands that have oversight of the Organizations have stated that they do not have a direct role in monitoring security assistance programs.

Organization officials told us that, for the most part, they performed informal checks of U.S.-funded equipment and supplies while visiting host country bases on other business. For example, in Thailand and Portugal, these officials told us that during such visits, they observed not only the general condition of the equipment and quantities on hand but also the location of items to determine if items were strategically placed. Some Organization officials received informal reports, upon request, on the presence and condition of U.S.-funded equipment and supplies from U.S. technical teams and contractors. For example, in Honduras and Barbados, technical teams were asked to conduct periodic inventories and spot checks of U.S.-provided equipment and supplies. In most countries, U.S. officials did not meet military aid shipments to verify that all items were received, nor did they track the items to their final destinations.

The Defense Attache Offices told us they conduct indirect oversight of U.S. military aid programs and, in some countries, perform security assistance management functions. For example, while carrying out their responsibilities, they may receive and report information on alleged or actual cases of misuse or diversion. However, they have explained that they do not have direct oversight responsibilities for military aid and that they do not routinely monitor use of U.S.-funded items.

The Department of State is statutorily responsible for general direction for security assistance, including determining program recipients, funding levels, and defense items to be provided. The Department's Office of Defense Relations and Security Assistance reviews foreign

country requests for approval to transfer military items to third parties. Officials in this office told us they do not monitor host country use of military aid items and rely on a host country to comply with military aid agreements.

Host Country Controls Do Not Ensure Accountability

The countries we visited generally had written policies and procedures to account for and control military equipment and supplies. We did not evaluate the extent to which these policies and procedures were being implemented. However, we observed some control weaknesses that could make military aid vulnerable to misuse and diversion.

Four of the seven countries had written policies and procedures at the command and central warehouse facility level to control military equipment at each military service. U.S. officials told us that they considered these procedures to be generally adequate but acknowledged that they had not attempted to review the procedures in sufficient detail to assess vulnerabilities and accountability weaknesses. For example, U.S. officials said that they had not assessed the adequacy of Portugal's inventory control system and questioned whether they would have the necessary expertise to do so.

Host country Inspector General and/or warehouse officials periodically inspect inventories of equipment and supplies. For example, in Guatemala, host country officials told us that a military Inspector General and auditing teams generally performed inspections at least annually and that Guatemalan staff also performed inspections upon a change of command or at least semiannually at each facility. These officials said that they provided their written reports to host country officials, but none were provided to U.S. officials. Our spot checks of inventories at Army and Air Force installations indicated that the last inventory was conducted in 1986.

Most of the facilities we visited had security measures for military equipment and supplies, including U.S.-funded items. Vehicles, in some cases, were stopped at base entrances and searched, guards were posted around the perimeter of a base, warehouses were generally clean and well-organized, and fire fighting equipment was usually accessible. Normally, only one entrance to a warehouse was open during duty hours, and only authorized personnel were allowed to enter the area. Some facilities kept high value or sensitive items in secured areas within warehouses. However, in some instances, articles were stored in an unsafe manner. For example, at a naval base in Honduras, flammable

and nonflammable items were stored closely together, and at an Army unit, munitions were stored in the warehouse rather than in the bunker, with no fire fighting equipment nearby.

Organization personnel in the Philippines have observed several cases of poor accounting and storage of equipment. In 1988, these officials visited a military supply point and found leaking dynamite, explosives stored in a damaged and insect infested bunker, storage of intermingled flammable and nonflammable materials, and no fire fighting equipment.

Organization officials indicated that the Philippine military's storage and management of equipment had improved in the past 2 years but acknowledged that there was evidence of continuing problems with logistics management in the Philippine military. For example, in 1990, Organization personnel found hundreds of weapons stored in an armaments room in an unorganized manner. Also, earlier this year, while visiting a Philippine base, an Organization official listed several problems, including parts sitting in inventory since 1974, munitions deteriorating in unventilated buildings, and munitions commingled with general supply parts. As a result, the Chief of the Security Assistance Organization proposed to the Philippine military that they conduct a joint logistics study to address the problems of distribution and property management.

Each country we visited had some type of controls over the receipt, storage, and issuance of material; however, we found a few instances where these controls were lax. Most countries had central shipping areas, where material was brought from warehouses for customer pickup or shipment. Only personnel with authorized signatures could obtain items from warehouses. An example of a well-maintained distribution center was the depot area for the Portuguese Air Force. The area appeared well-organized, with material ready for pickup temporarily stored behind a screen enclosure in areas clearly marked for individual customers. The shipping area was attended by a number of personnel, including individuals who monitored customer pickup and another individual who verified the quantities and condition of material brought in from the warehouses. In contrast, the Portuguese Army's shipping area had a disorganized appearance, with material awaiting customer pickup in the open, just inside an open entrance to the building. Only one employee was visible in the shipping area.

We performed inventory spot checks of equipment and supplies in all of the countries we visited except the Philippines and Antigua. We did not

visit Philippine military facilities due to the sensitivity of ongoing base rights negotiations and security concerns. In Antigua, warehouse personnel were unavailable. Most military facilities maintained inventory records in manually prepared card files; computerization was in its early stages in Latin America. We conducted a total of 145 inventory checks in five countries of items that could be vulnerable to pilferage because of their potential commercial use (bearings, seals, head lamps, spare parts, tubes, hoses, drill bits, and adapters). We found 32 cases where the amount on hand differed from the amount recorded in accountability records. Reasons for the discrepancies varied. In most cases, officials stated that the inventory records had not been updated to record issuance of materials. In some cases, officials could not explain the discrepancy. At the Barbados Coast Guard, 7 of the 17 items checked could not be located. Coast Guard officials acknowledged that their procedures for issuing materials were not working.

Evidence of Misuse

U.S. and host country officials indicated that, although diversion and misuse were not pervasive, there had been some cases where U.S. military assistance was or may have been diverted. Some examples follow.

- In 1990, the U.S. Customs Service intercepted two commercial shipments of helicopter parts from the Philippines. These parts had been provided to the Philippine Air Force through the U.S. military aid program and had been sold to a private company without U.S. permission. In 1989, the U.S. Army Criminal Investigation Command investigated an alleged theft of new, U.S.-funded UH-1 helicopter parts from a Philippine air base. These parts had been purchased by a firm in Manila and sold to a U.S. firm. In 1988, the Philippine Air Force ordered parts for a CH-47 helicopter using U.S. aid funds, even though it did not have such helicopters. U.S. officials, concerned that the order was an attempt to acquire parts for commercial resale, canceled the order.
- In August 1990, the Philippine military began to investigate several of its officers who allegedly used false requisitions to steal and sell M-1 rifles, 400,000 rounds of ammunition, and 200 grenades to buyers believed to represent antigovernment insurgents.
- In 1989, the Guatemalan military convicted nine officers of selling helicopter parts and relieved a general of his command. U.S. and Guatemalan officials could not determine if the parts had been U.S. funded or acquired commercially.
- In April 1990, the Thai military stripped two C-123 aircraft of usable parts, including engines, instruments, and struts, prior to their disposal.

The stripping was a violation of U.S.-Thai agreements, and the United States sent formal letters of protest to the Thai Air Force.

- Between 1985 and 1988, the Salvadoran Air Force transferred U.S.-funded fuel to third parties without U.S. consent.⁴ These transfers included 61,107 gallons of fuel sold to air crews involved in the Contra supply operation.

In another case, the government of Honduras asked for a Defense Department investigation of a Honduran general who has been under a Honduran investigation since 1989 for allegedly selling U.S.-funded military equipment to units under his command and depositing the proceeds in a military account that he controlled. Subsequently, Honduras withdrew the request, in favor of its own internal investigation. In October 1990, U.S. officials told us that the investigation had been completed, but a report had not been made available to them. In August 1991, U.S. officials were still awaiting release of investigative results.

Host country officials indicated that they had experienced some pilferage of materials and supplies but at levels common to warehouse/storage operations. Some discrepancies in inventory records may have resulted from thefts at various warehouses since some of the discrepancies could not be explained. In Antigua, military officials said that supplies such as tool kits and radios were often missing. An official in Barbados also noted that there had been unexplained shortages of U.S.-provided equipment, including uniforms and boots, which apparently had been stolen.

Stronger U.S. Oversight Need Not Be Burdensome

Defense Department officials generally believe that host countries have adequate controls over the use of military assistance items and, therefore, they question the need for increased oversight. They also believe that increased U.S. monitoring of military aid would strain existing Organization staff resources, would harm U.S.-host country relations, and might infringe on host country sovereignty.

Foreign countries have policies and procedures to account for defense items. However, we found weaknesses in the application of these policies and procedures in all countries we visited. Furthermore, we found instances of actual or alleged misuse or diversion in most of the countries visited. Internal control standards require that all assets be safeguarded against waste, loss, unauthorized use, and misappropriation.

⁴El Salvador: Transfers of Military Assistance Fuels (NSIAD-89-186, Aug. 29, 1989).

Increased monitoring is key to providing the proper checks and balances against diversion and misuse.

Defense Department officials also indicated further U.S. oversight would require additional staff or strain current resources. Organization officials in Guatemala indicated that two to three additional staffers would be needed to carry out increased monitoring responsibilities. In Barbados, the Organization had not been fully staffed since 1989. In Thailand, U.S. officials said that the lack of travel funds had already affected their monitoring performance. Visits to bases outside of the Bangkok metropolitan area were limited, and, thus, the opportunity to monitor U.S.-funded equipment was reduced.

The Defense Department, nevertheless, can develop accountability standards and procedures appropriate for each country's program with the amount of U.S. oversight depending on, among other factors, the adequacy of host country internal control systems and the sensitivity of the U.S.-funded military items. Where additional resources are necessary, alternatives to increasing Organization staff can be employed. For example, in a U.S. military aid program in Colombia, Organization officials plan to work with the host country Inspector Generals to review aspects of the military's control system to ensure that counternarcotics aid is used as intended. Also, as a result of our recent work in El Salvador, the Commander of the U.S. Security Assistance Organization implemented a program to perform periodic spot checks of selected U.S.-funded items to provide reasonable assurance of accountability and control. The spot checks were incorporated into the current work load without increasing staff. Internal control standards for federal agencies indicate that the cost of internal controls should not exceed the benefit derived. Therefore, consideration should be given to costs, benefits, and risks associated with the oversight to be provided.

Organization personnel indicated that their main role is to assist host countries in developing an effective military, promoting self-sufficiency, and encouraging the use of U.S. military equipment. These officials further pointed out that host country governments may view U.S. attempts to increase oversight as a breach of sovereignty that would harm good relations with recipient countries. For example, U.S. officials in Portugal and the Philippines noted that host country governments would object to in-depth U.S. monitoring of security assistance material for which they have received title as a violation of their national sovereignty.

Our review indicated that this line of reasoning is flawed. Foreign governments agreed to allow the United States to monitor all military items provided before fiscal year 1982. In addition, the security assistance program has changed from a credit sales program back to a grant aid program in most countries in recent years, which argues that the Defense Department should have increased access to insure that assistance items are being used as intended. The United States has other foreign aid and overseas programs in which it specifies strict eligibility conditions and exercises close oversight. For example, the U.S. Agency for International Development has developed agreements for access to host country internal control systems and financial records to ensure proper use and accountability of U.S. funds and host country funds, or local currencies, associated with its assistance projects. Also, the Agency for International Development established a system of controls for its humanitarian assistance program for the Nicaraguan Democratic Resistance to ensure that purchases were permissible and to verify suppliers' legitimacy and reasonableness of prices. Furthermore, the Agency's auditors and a U.S.-funded private accounting firm maintained close oversight of the program. In addition, after consultations with the Defense Department, the Commerce Department has used export control conditions on items that have potential military applications. The level of U.S. oversight in these programs sets a precedent for similar controls over U.S.-funded military aid.

Conclusions

The Arms Export Control Act, which governs military aid items that have been purchased by recipient countries since fiscal year 1982, does not specify U.S. responsibilities for oversight and monitoring of U.S.-supplied defense articles. This lack of statutory mandate and vague Defense Department guidance contribute to uncertainty as to the responsibility that U.S. officials have for ensuring that military aid is used as intended. U.S. officials are not sure if and to what extent they are responsible for monitoring military equipment and supplies once delivered to a host country. Therefore, the Security Assistance Organizations' oversight is informal and limited, and it varies from country to country.

Although recipient countries have security controls, weaknesses in these controls and cases of actual and alleged diversion indicate that U.S.-funded items may be vulnerable to misuse. The United States does not have reasonable assurance that end-use accountability and compliance with military aid conditions are achieved. Enhancement of U.S. oversight could probably be achieved without adding staff resources in most

cases, beginning with the development of accountability standards to provide the level of oversight appropriate for each country and related conditions.

Matters for Congressional Consideration

To impose a statutory requirement for U.S. oversight, place greater emphasis on accountability and controls, and clarify existing provisions related to security for U.S.-funded items, the Congress may wish to consider modifying the Arms Export Control Act to require

- the Secretary of Defense, after coordination with the Secretary of State, to implement monitoring and oversight actions appropriate for each recipient country to ensure that existing conditions pertaining to use, security, and transfer of U.S.-funded military items are met;
- recipient countries, as a condition to receiving U.S. military grant aid, to permit U.S. representatives to review these countries' internal control systems and the accountability, disposition, and use of U.S.-funded items; and
- recipient countries to agree to safeguard all defense articles, including unclassified as well as classified items.

Recommendation

We recommend that the Secretary of Defense direct the Director of the Defense Security Assistance Agency to develop accountability standards for military aid programs and to revise the Security Assistance Management Manual to clarify what monitoring is required to provide reasonable assurances that recipient countries are meeting conditions set forth in legislation and aid agreements. In applying these standards, Security Assistance Organizations should take into account, among other factors, the adequacy of recipient country internal control systems, the vulnerability of items to misuse and diversion, and the sensitivity and lethality of the items. These standards should apply to all military aid items, including both pre- and post-1982 military assistance programs.

Agency Comments and Our Evaluation

The Defense Department, in commenting on a draft of this report, agreed that current legislation does not require countries to permit U.S. officials to observe military aid end-item use but indicated that additional legislative authority would not be helpful in managing the program. The Defense Department believes that current legal authority is adequate and that passage of legislation, which might require more intrusive U.S. accounting measures, would be a sensitive issue with many U.S. allies. We believe that the provision of additional legislative

Chapter 2
Stronger U.S. Oversight Can Improve
Accountability

authority would demonstrate the importance the United States attaches to accountability. Without additional authority, some Security Assistance Organizations officials may be reluctant to exercise necessary oversight.

The Defense Department believes it does have reasonable assurances that end-use accountability and compliance with military aid conditions are achieved. The Defense Department stated that, while no monitoring process will ensure perfect accountability, the present process comes closest to achieving that end within the bounds of practicality. The Defense Department acknowledged that the Security Assistance Management Manual specifies that observation and reporting are to be continuous and in conjunction with other duties and that the time a Security Assistance Organization devotes to monitoring is dependent upon competing priorities and the extent of the problem. The Defense Department agreed that additional guidance to Security Assistance Organizations in the field would be useful to emphasize oversight and monitoring responsibilities, and it plans to issue such guidance later this year.

After careful consideration of Defense's comments, we continue to believe that the current guidance does not go far enough in describing the desired amount and type of monitoring and the appropriate degree of accountability for U.S.-funded items. Moreover, we continue to believe that accountability standards are needed.

The Department of State chose not to comment on a draft of this report.

Monitoring for Past Military Assistance Is Not Conducted

Unlike the legislation governing the current military aid program, other legislation applying to U.S. military articles that were furnished to foreign countries before fiscal year 1982 requires U.S. monitoring to ensure that the items are not being misused or transferred without U.S. authorization. To meet this monitoring requirement, Defense Department regulations require that annual inventories of major defense items be conducted. With the exception of Portugal and Thailand, the countries we visited did not regularly submit inventories of Military Assistance Program equipment, and in some cases these inventories were incomplete and inaccurate.

Defense and Security Assistance Organization personnel asserted that most of these items are now antiquated and/or obsolete. They believe that annual inventories and U.S. monitoring are time-consuming and do not serve a useful purpose and should be discontinued. However, in some cases this might mean that items that continue to be sensitive, lethal, or vulnerable to misuse would not be subjected to any U.S. oversight. For example, F-5 aircraft, TOW missiles, and M-60 tanks are among the items provided prior to 1982.

Monitoring Requirements

The billions of dollars of defense articles provided before fiscal year 1982 through the Military Assistance Program are governed by the Foreign Assistance Act. Section 505(a)(3) of the act provides that defense articles shall not be furnished to any country on a grant basis unless it shall have agreed that "it will...permit continuous observation and review by, and furnish necessary information to, representatives of the United States Government with regard to the use of such articles or related training or other defense service ..." Section 623(a)(3) of this act provides that for military grant aid, the Secretary of Defense shall have the primary responsibility for supervising end-item use by recipient countries.

The Security Assistance Management Manual requires Security Assistance Organizations to monitor the status of defense items provided under the Military Assistance Program. As a minimum, the guidance requires the responsible organization to maintain an inventory and to request the foreign government to update it at least annually. However, at least one country, Morocco, has been exempted from conducting such an inventory by the President. Officials from the Departments of Defense and State said that information was not readily available on other countries that had received presidential waivers on the monitoring requirement.

Defense Security Assistance Agency officials have indicated that much of the defense items provided before fiscal year 1982 are now obsolete and/or inoperable. They believe that the benefits of closely monitoring the use of the items and annually updating inventories are not commensurate with the resources and the effort required to perform these tasks. These officials said that the requirement for supervision of end-item use was no longer useful. Defense Department officials we interviewed at overseas locations agreed. Defense Security Assistance Agency officials told us that the Defense Department has proposed revisions to section 623(a)(3) that would lessen the required U.S. oversight. Specifically, it has proposed that the requirement for end-use supervision be replaced by a requirement for end-use monitoring.

Monitoring Is Not Performed

We found that some Security Assistance Organizations had not performed the required monitoring of Military Assistance Program items. For example, in Honduras, Organization officials requested inventories from the Honduran military; however, we found no documentation of responses to the requests for fiscal years 1987 through 1990. In the years that responses were documented, we found no indications that the military was performing a physical inventory or spot checking any of these items. In addition, some Honduran military officials did not appear to be aware of this requirement, nor did they believe that they could identify items received before 1982.

In Guatemala, Organization personnel had neither requested nor received inventories from the Guatemalan military. The request for the fiscal year 1991 inventory was initiated by the Security Assistance Organization after we inquired into the matter.

Organization officials in the Philippines did not request an inventory update in fiscal year 1988 but did make requests in fiscal years 1989 and 1990. In fiscal year 1989, all Philippine military branches, with the exception of the Philippine Constabulary responded to the Organization's request, and in fiscal year 1990 all military branches responded except for the Philippine Marines.

In Thailand, U.S. officials did not have a complete and accurate list of inventories from fiscal years 1988 to 1990. For example, the 1990 submission showed no O-1 "Bird Dog" observation aircraft in the Royal Thai Air Force inventory. But in October 1990, Thailand requested U.S. permission to sell 21 of these aircraft. These planes should have been included in the inventory that same year. The Thai inventory listing

identified Don Mounng Air Force Base as the location for eight C-123 aircraft. When we visited this base, Thai officials said the aircraft were not there. In addition, the 1990 inventory of U.S.-funded equipment did not list "Sidewinder" missiles that should have been included.

U.S. officials noted three problems with the annual inventory requirement. First, preparing the inventories in accordance with the Department's requirements is difficult and time-consuming due to limited U.S. staff resources and, at times, limited host country cooperation. Second, governments do not receive economic benefit from properly accounting for equipment; thus, they have no incentive to follow all of the inventory requirements. Finally, Organization officials said that conducting the inventories is not always feasible because the Defense Security Assistance Agency does not maintain a complete and accurate list of equipment provided to foreign countries before fiscal year 1982, making a full accounting of the items difficult.

Defense Department officials at the Pentagon and the Pacific and European Commands acknowledged that conducting the annual inventories was not a priority and that U.S. military officials did little to monitor end use of military aid provided before 1982. They believe the requirement has outlived its usefulness because most of the items, such as trucks and weapons, are old and inoperable. While many items may be obsolete, there may be other items that are sensitive or lethal; thus the United States would want to continue monitoring end use. Equipment provided prior to fiscal year 1982 include F-5 aircraft, TOW missiles, and M-60 tanks, which likely warrant continued monitoring.

Internal control standards for federal agencies specify that internal control systems are to provide reasonable assurance that objectives of the systems will be accomplished, but the costs should not exceed the benefits to be derived. Therefore, the costs, benefits, and risks of the control system have to be considered to determine the necessary level of monitoring.

Conclusions

Security Assistance Organizations are not meeting the minimal monitoring requirement in Defense Department guidance for U.S. military aid provided before fiscal year 1982. U.S. military officials acknowledge that this requirement is not a priority and believe that it should be discontinued. The Defense Department said it had reached agreement with key congressional committees that the legislation requiring supervision of the end use of military aid provided before fiscal year 1982 should be

changed to require monitoring. The Defense Department believes this change would better describe the amount of U.S. oversight necessary. We believe that the benefits of closely monitoring military aid items provided years ago may not in all cases justify the effort. Although some military items provided before fiscal year 1982 may require continued monitoring, we agree with the Defense Department that special controls for older military aid items, which are not applied to the current aid program, may not be an appropriate use of Security Assistance Organization resources. The Defense Department should focus its monitoring efforts on military aid items that are sensitive, lethal, and vulnerable to misuse whether they were provided before fiscal year 1982 or since then.

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

12 SEP 1991

In reply refer to
I-004489/91

Mr. Frank C. Conahan
Assistant Comptroller General
General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense response to the General Accounting Office draft report entitled "MILITARY AID: Increased Oversight Needed," dated August 7, 1991 (GAO Code 464131, OSD Case 8796). The DoD concurs with the spirit of the draft report and strongly supports efforts to enhance management of US-origin defense articles, but does not agree with many of the conclusions drawn and only partially agrees with the recommendations presented. In the DoD view, implementation of the suggestions and recommendations could consume resources without necessarily contributing to the overall management of the security assistance program. The DoD does, however, agree that additional guidance to the field would be useful to emphasize oversight and monitoring responsibilities. Such guidance will be issued within the next two months.

Given the scope of the security assistance program and the various stages of country property management sophistication, the risk that defense articles and defense services will not be used properly in all instances will not be totally eliminated. Nevertheless, the risk can be minimized through effective use of all of the oversight tools available. The DoD does not support additional legislation to improve assurance of compliance with existing laws.

It is the DoD position that the strength of US controls lie in a combination of areas, with the most important at higher management levels; that is, in the selection by the US of countries eligible to receive defense articles and in providing training and other assistance in developing sound accountability processes within each eligible country. Formal and informal oversight by country, US commercial, and US Government agencies to detect, halt, and change conditions contributing to abuse are included in existing internal controls that support process improvements, which are only possible at country military department, ministry of defense, or similar national levels.

There has been a downward trend in worldwide Security Assistance Officer strength for some time and the majority of the Security Assistance Offices presently consist of six personnel or

See GAO comment 1.

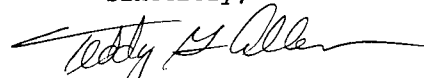
Appendix I
Comments From the Department of Defense

See GAO comment 2.

less. Minimal staffing of the Security Assistance Offices is consistent with the stated intent of Congress (e.g., section 515 of the Foreign Assistance Act of 1961, as amended). Even though the DoD does not agree that more accounting for US-origin items can be done without adding personnel, the DoD does not recommend augmentation of the Security Assistance Offices to improve such accounting, since US personnel cannot effectively replace country accounting resources at the many depot and unit levels through which items routinely move during their service lives.

The assistance of the General Accounting Office in improving management of US-origin defense articles is welcome. The Department of Defense is also pleased to have the opportunity to review and respond to the draft report.

Sincerely,



Teddy G. Allen
Lieutenant General, USA
Director

Attachment
As stated

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GAO DRAFT REPORT - DATED AUGUST 7, 1991

GAO CODE 464131, OSD CASE 8796

"MILITARY AID: INCREASED OVERSIGHT NEEDED"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

FINDING A: Foreign Military Financing Program. The GAO observed that, prior to FY 1982, the US provided over \$54 billion in military equipment and supplies to 73 countries through the Military Assistance Program. The GAO further observed that, since FY 1982, the US has provided about \$28 billion to 70 countries in Foreign Military Sales Financing Program grant funds, which finance purchases of US defense articles. The GAO pointed out that the Secretary of State has responsibility for supervision and general direction for security assistance. The GAO noted that, within the DoD, the Defense Security Assistance Agency has overall responsibility for the program. The GAO reported that, under the direction of a US Ambassador, a US representative (usually a Security Assistance Organization official) manages the security assistance program in each country. The GAO also found that US officials from unified commands work in conjunction with security assistance personnel to help manage the programs. The GAO noted that, for FY 1991, the United States will provide \$4.6 billion in military aid, \$4.2 billion of which will be for grants.

The GAO referenced previous reports resulting from reviews in El Salvador 1/, in Liberia 2/, and in the Philippines 3/, where it found that (1) US controls over host countries' use of security assistance was limited and (2) recipient country control procedures were often inadequate to ensure that US aid was used as intended. (p.1, pp. 9-11/GAO draft report)

1/ El Salvador: Accountability for US Military and Economic Aid," September 1990 (OSD Case 8318)

2/ Liberia: Need to Improve Accountability and Controls Over US Assistance, July 1987 (OSD Case 7241-A)

3/ "Accountability and Control Over Foreign Assistance," March 1990 (OSD Case 8289)

Enclosure

Now on p. 12.

DoD Response: Concur. The DoD agrees that accountability of US-origin defense articles are of continuing concern and require ongoing emphasis.

FINDING B: No Legal Basis for US Oversight. The GAO reported that military assistance, provided since FY 1982, has been subject to the conditions of the Arms Export Control Act--rather than the Foreign Assistance Act of 1961. The GAO noted that, under the Arms Export Control Act, military assistance may be given only if countries agree to use US-funded military items for intended defense purposes and provide adequate security for the items. They cannot transfer the items to a third party without US consent. The GAO found that, beginning in FY 1982, military assistance funds were merged with the funds provided for Foreign Military Sales purchases. The GAO learned, however, that the Arms Export Control Act does not require foreign countries to permit US officials to observe item use. The GAO also noted that the Defense Security Assistance Agency applies the Arms Export Control Act eligibility criteria to purchases using military aid grant funds. Although the Congress has stipulated how the US-funded items are to be used, the GAO concluded that no one is responsible for ensuring the legislative conditions are met.

The GAO also observed that US officials are not required by law to oversee the nature and extent of the protection being provided to US-funded defense items. The GAO noted the Defense Security Assistance Agency acknowledges that countries should provide security for all US-funded items as a matter of good management practice. The GAO further noted it is the Agency view, however, that the provision of the Act requiring security for US-funded items applies only to classified materials. The GAO nonetheless concluded there is no basis in the statute or its legislative history to indicate such security is limited to classified articles. (pp. 2-3, pp. 13-15/GAO draft report)

DoD Response: Partially concur. The DoD concurs that military assistance may be provided only if countries agree to item use and retransfer restrictions included within the Arms Export Control Act and Foreign Assistance Act of 1961, as amended. The DoD also agrees that current legislation does not require countries to permit US officials to observe item use. It is the DoD view, however, that additional legislative authority to observe item use would not be helpful in managing the program.

Legal authority is adequate at present and passage of legislation, which might require more intrusive US accounting measures, would be a sensitive issue with many US friends and allies. Based on the Arms Export Control Act and Foreign Assistance Act of 1961, as amended, each agreement under which defense articles or services are provided restricts item use, as follows:

Now on pp. 3 and 14-15.

See GAO comment 3.

- For purposes specified in a Mutual Defense Assistance Agreement with the purchaser, or

- For purposes specified in a bilateral or regional defense treaty, or

- For internal security, individual (recipient country) self defense, or civic action.

Items cannot be used for other purposes or transferred to anyone not an officer, employee, or agent (e.g., a freight forwarder) of the recipient without written US consent. The consent process includes Congressional reporting procedures.

See GAO comment 4.

The importance of complying with the cited provisions is basic to security assistance program management and is emphasized in US and Security Assistance Office contacts with foreign purchasers of US equipment, whether grant or country funds are used. The described restrictions establish standards of accountability and management control for both US and purchaser compliance.

The security assistance process includes adequate flexibility so that additional restrictions may be added when warranted, such as is done for man-portable air defense missiles.

See GAO comment 4.

It continues to be the DoD position that the legislated requirement for countries to provide substantially the same degree of security protection afforded to such articles or services by the United States Government applies only to classified items. As noted above, for certain air defense missiles, there are some items where additional restrictions are a part of the transfer agreement. The Department does not dispute the need for protections necessary to ensure items are used for their intended purposes, nor disagree that full physical protection of items is a program objective. Every Letter of Offer and Acceptance, since 1965, and every lease under the Arms Export Control Act, since 1982, makes clear that the statute is implemented if the purchaser agrees to so protect "any items, plans, specifications, or information furnished...[that] may be classified by the US Government for security purposes." It should be noted that requiring countries to take standard US physical security measures, such as erecting permanent-structure warehouses with temperature and humidity controls, would halt many programs, especially short term programs such as leases, in countries having inadequate funds to meet all defense requirements.

See GAO comment 5.

FINDING C: US Does Limited Monitoring of Military Aid. The GAO reported that, according to the Defense Department Security

Appendix I
Comments From the Department of Defense

Assistance Management Manual, Security Assistance Organizations are to observe and report on the use of US-funded equipment and supplies as a secondary duty. The GAO found, however, that the manual does not prescribe how, when, and how much monitoring must be performed. In the countries the GAO visited, US military officials interpreted the oversight guidance differently. Some believed they were responsible for monitoring the use of US-funded items, but others said they were not. The GAO noted that US officials in several countries suggested that the guidance needed to be clarified to specify the level of monitoring.

The GAO also reported that, in all the countries it visited, US officials said they conducted limited monitoring while performing other duties--but they did not have structured oversight programs to ensure accountability for US military aid. The GAO found there are no acceptability standards that specify if and to what extent the DoD and the Security Assistance Organizations are to monitor military aid. The GAO noted that, according to Defense Department officials, because of staff limitations and security concerns, extensive monitoring was not feasible. The GAO also noted that Security Assistance officials stated that, for the most part, they perform informal checks of US-funded equipment and supplies while visiting host country bases on other business. The GAO also found that some officials receive informal reports from US technical teams and contractors. In addition, the GAO noted that Defense Attache Offices said that, while they conduct indirect oversight responsibilities, and do not monitor the use of US-funded items on a routine basis. The GAO concluded that, without the oversight, the United States does not have reasonable assurance the conditions regarding use, security, and transfer of US-funded items are being met. (p. 3, pp. 15-17/GAO draft report)

DoD Response: Partially concur. In quoting published guidance, the report omitted the italicized portion of Security Assistance Office duties shown below:

"Observe and report on the utilization by the host country of defense articles, defense services, and training of US origin. This function should be carried out as a secondary duty. How and to what extent such observations and reporting should and can be done will vary considerably from country to country, and thus no standard procedures are prescribed. *The process for accumulation of information should use all available resources (e.g., country reporting or documentation, TDY personnel assigned in country performing other duties, other elements of the U.S. Diplomatic Mission, and spot checks during the normal course of SAO duties and travel).* Reporting should be done on an exception basis through established security assistance channels. Records, as accumulated, should be kept on file at the SAO."

In the same vein, another section of the same manual, pertaining to oversight of end item use states:

See GAO comment 6.

See GAO comment 7.

"SAOs assigned to countries which were the recipients of grant aid materiel under programs initiated prior to FY 1982 are required to monitor the status of such materiel." and "These end item utilization responsibilities normally do not require dedicated travel for inspection purposes and must be undertaken with resources assigned or otherwise available primarily for other purposes. Noting the presence and utilization of US-origin equipment should be done during the course of other duties and end-use inspection or MAP-related functions will not justify SAO personnel authorizations. Note that end-use observation and reporting extends to items of US origin other than MAP...."

The cited extracts show that observation and reporting (monitorship and oversight) are to be continuous, in conjunction with other duties, and evidence of non-compliance with agreements, as noted in Finding B, are to be reported through security assistance channels. It is therefore the DoD position that guidance has been provided to show when, how, and how much monitoring is necessary. As reflected in statements of Security Assistance Office staffs included in the report, the degree to which the Security Assistance Office devotes time to monitoring alone is dependent upon competing priorities and the extent of the problem (e.g., a sound, well managed property management system which is tightly controlled by a country's military forces takes less time than a process with indications of persistent systemic weaknesses requiring attention at the Ambassadorial level or higher).

It is the DoD position that effective and proper utilization of US defense articles and services is the objective, with Security Assistance Office and other US monitoring being only one tool for achieving the objective. Security Assistance Office duties, other than those cited above, are even more important for ensuring proper utilization, including (1) assessments of country capabilities to employ and maintain equipment, (2) keeping host country officials informed on US security assistance laws, policies, and procedures, and (3) advising country personnel concerning training or other property management assistance needed. A majority of the Security Assistance Offices have six personnel or less authorized, and even fewer on board. The range of actions needed for proper accounting for all items acquired from the US, from transfer of title to final disposal, cannot reasonably be undertaken by the Security Assistance Offices. Most monitoring will, by necessity, continue to be done by the recipient country. The Security Assistance Office, country, and other sources of information, including usual intelligence collection methods, form a monitoring network and all are responsible to feed information to the Departments of State and Defense to ensure that standards summarized in Finding B are met. Making the Security Assistance Office responsible for monitoring would not strengthen the monitoring network presently in place.

The Defense Security Assistance Agency will provide a message to the Security Assistance Offices emphasizing the above guidance and further explaining its interpretation.

FINDING D: Host Country Controls Do Not Ensure Accountability.

The GAO reported that, in the seven countries it visited, the host militaries generally had accountability and control procedures. The GAO did not, however, attempt to evaluate fully the extent to which those policies and procedures were being implemented. The GAO noted that US officials stated they had not attempted to review host country procedures at command and warehouse facility level to assess vulnerabilities. The GAO also reported that host country Inspector General or warehouse officials periodically inspect inventories of equipment and supplies and that most of the facilities the GAO visited had security measures for the supplies. The GAO observed, however, that because of weaknesses in applying the procedures, US-funded items could be vulnerable to misuse or diversion. The GAO performed spot checks of equipment and supplies in five of the countries and identified 32 cases (out of the 145 items checked) where the amount on hand differed from inventory records, with some items issued without the issue being recorded. The GAO found the following:

- In Guatemala, scheduled inspections were not being performed.
- In Portugal, US-funded items in a military shipping facility appeared vulnerable to pilferage because equipment and supplies in a large section of the facility were disorganized and the entrance door was left open and unguarded.
- In the Philippines, US personnel reported that explosives were stored in a damaged bunker, with no fire fighting equipment nearby. The GAO noted that the Chief of the Security Assistance Organization proposed to the Philippine military that they conduct a joint logistics study to address the problems of distribution and property management.

In summary, the GAO concluded that the US does not have reasonable assurance that end-use accountability and compliance with military aid conditions are achieved. (pp. 3-4, pp. 17-20, p. 25/GAO draft report)

DoD Response: Partially concur. The DoD has no basis to dispute the information presented, which is based on GAO observations and interviews with US and foreign personnel. The DoD disagrees, however, that the US does not have reasonable assurance end-use accountability and compliance with military aid conditions are achieved.

Now on pps. 3-4 and 17-19.

See GAO comment 8.

While no process will ensure perfect accountability, the present process comes closest to achieving that end within the bounds of practicality.

The report states that 32 of 145 inventories indicated an out of balance condition between items on hand and items on record. It must be understood that those inventories are in motion. A conclusion that systemic problems exist, based on the inventory procedure described in the report, is suspect. In order to avoid drawing incorrect conclusions when the same circumstances occur with DoD stocks, DoD procedures require that discovery of such discrepancies must be followed by a reconciliation process to determine if a true out of balance condition exists. That process typically reveals added actions (e.g., a receipt was posted before items were physically moved to the depot storage location; a requisition copy caused shipment of items before the order was posted to accountable records; expired shelf-life items were moved to disposal before the account adjustment was posted; and so forth), which reconcile the on hand and raw recorded inventory quantity.

FINDING E: Evidence of Misuse. The GAO reported that US and host country officials indicated that, although diversion and misuse were not pervasive, there had been some cases where US military assistance had been diverted. The GAO noted that, in 1989, nine Guatemalan officers were convicted for selling helicopter spare parts (which may have been US-funded). The GAO also asserted that, in the Philippines, the diversion of US-funded helicopter parts has been a continuing concern. Finally, the GAO cited the example of the Honduran general who has been under Honduran investigation since 1989 for allegedly selling US-funded military aid items to his units and depositing the proceeds in a military account that he controlled. The GAO again noted that, during previous reviews in several countries, it had found (1) US controls over host country use of security assistance was limited and (2) recipient country control procedures were often inadequate to ensure US aid was used as intended. The GAO concluded that the risks of diversion of military items were substantial. (p. 4, pp.21-22/GAO draft report)

DoD Response: Concur. It is noteworthy that the several cited instances of misuse reflect successes of the monitoring network discussed within these comments. The Security Assistance Office is only one player in the network. The listed instances of misuse show remedial actions based on information from US Army Criminal Investigation, country officials, US Military Departments, US Customs, Department of State, and even the GAO. Indications of abuse have sometime had unorthodox origins; for example, one good source of information in the past has been US commercial marketers, who tend to follow up any indication their products are being used in unauthorized ways.

Now on pps. 4 and 19-20.

FINDING F: Stronger US Oversight Need Not Be Burdensome. The GAO reported that Defense Department officials stated that, as host countries generally have adequate controls, increased US monitoring of military aid (1) was unnecessary, (2) could be detrimental to US-host country relations, and (3) may infringe on host country sovereignty. The GAO held that, although some of these arguments might be more persuasive in the case of military sales, they are less convincing when the US is providing the funds. The GAO found weaknesses in the application of foreign country policies and procedures, in accounting for defense items, in all countries visited. The GAO observed that, since the Federal Agency internal controls should not exceed the benefits derived, consideration should be given to costs, benefits, and the risk associated with the oversight to be provided. The GAO concluded, however, that the findings of this report, as well as prior GAO reviews, demonstrate clearly that more emphasis on monitoring and accountability is needed. The GAO observed that there are concerns over harming relations with host countries and sovereignty issues. The GAO noted that the US already has the authority to monitor all military items provided before 1982. In addition, the US has been able to overcome similar concerns on other foreign aid and overseas programs. For example, the GAO cited the controls the Agency for International Development exercises over its economic assistance programs and the Department of Commerce over the use of exports of certain high technology items.

The GAO also reported that more emphasis on monitoring and accountability need not require additional staff. For example, the GAO noted that US military officials in El Salvador have designed a program to improve accountability without adding staff. In Colombia, the GAO found that US military officials plan to work with host country Inspectors General to review aspects of the military control system to ensure that US counter-narcotics aid is used as intended. The GAO concluded that the Defense Security Assistance Agency could develop accountability standards and procedures appropriate for each country's program. The GAO further concluded that establishing the authority to monitor compliance is important because it provides leverage to ensure that US-supplied items are not used for unauthorized purposes. The GAO also concluded that enhancements of US oversight probably could be achieved without burdening staff resources in most cases--beginning with the development of accountability standards to provide the level of oversight appropriate for each country and its conditions. (p. 4, pp. 23-26/GAO draft report)

DoD Response: Partially concur. The DoD agrees that controls are needed for items when the US provided the funds. The DoD also asserts that controls are important for all defense items

Now on pp. 4 and 20-22.

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See GAO comment 9.

and that, overall, the newer and higher technology post-1982 items must receive a proportional share of management attention. The DoD agrees that a balance must be achieved between the costs and the benefits of internal controls. It is the DoD view that, over many years and through considerable experience, the balance has been achieved, with additional studies simply consuming resources with little added payoff.

See GAO comment 10.

Based on requirements (as cited in the DoD response to Finding B). The DoD has adequate authority to monitor (observe and report on) US-origin equipment usage. The effect of legislation within the Foreign Assistance Act now requires the DoD to "supervise" pre-1982 Military Assistance Program items. That requirement is generally recognized as unrealistic, however, and new legislation is expected to change "supervise" to "monitor" in the near future, making pre-1982 Military Assistance Program requirements consistent with other monitoring efforts.

See GAO comment 11.

The report intermixes US oversight and accounting process improvements, which country officials and SAOs are continually making, which appears to indirectly recognize that effective and proper item utilization is the objective, not oversight per se, and that the US is continuously working to improve the accounting process. That is noteworthy since, in relation to the millions of items provided under Military Assistance Program, Foreign Military Sales, and lease transfer agreements over the past four decades, evidence of misuse of US-origin items continues to be minor.

See GAO comment 12.

The criteria for program eligibility and the breadth and depth of ongoing controls on transfers of defense articles and services are so different from Agency for International Development and Department of Commerce programs as to make the comparisons in the draft report questionable. Controls on defense articles have more depth and breadth than is acknowledged in the draft report. For example, it is doubtful if the GAO would advocate that the Agency for International Development or the Department of Commerce monitor US-origin items that were transferred decades in the past by those agencies, yet the standards (as summarized in Finding B) dictate that must be done for defense articles. Legislated or general authority to intrude into defense installations and operating units is not merely an inconvenience, it is a direct threat to a country's security. As stated previously, intrusive restrictions are placed on transfer agreements for specific defense articles in those instances where it is determined that doing so is in the overall best interests of the United States. For most items, however, less intrusive oversight is adequate to serve the mutual accounting needs of the US and the country, and is more effective in engendering a cooperative, versus a superior-subordinate, relationship.

The DoD comments in response to Finding C are reiterated regarding assertions that additional accounting efforts would not require additional staff.

FINDING G: Monitoring For Previous Military Aid. The GAO reported that, prior to FY 1982, the US provided defense articles directly to foreign governments under the Foreign Assistance Act. The GAO noted, however, two provisions of that program do not apply to current military aid. Those provisions (1) required countries to permit US observation of the end-use of US-furnished items and (2) required DoD supervision of military grant aid use. The GAO noted that, according to agency implementing guidance, at a minimum, Security Assistance Organizations must maintain an inventory of major US-funded items, which is updated annually by the foreign country. The GAO found that, of the seven countries it visited, only Portugal and Thailand were meeting the requirement.

The GAO also reported that officials at the headquarters of the Pacific and European Commands acknowledged that conducting the annual inventories was not a priority. The GAO noted that the officials indicated many of the military items provided before 1982 are now obsolete or inoperable and they believe the benefits of annually updating inventories are not commensurate with the resources and effort required. The GAO also noted it is the position of the Defense Security Assistance Agency that the legislative requirement for supervision and the DoD requirement for annual inventories should be discontinued.

The GAO found that some Security Assistance Organizations had not performed the required monitoring of Military Assistance Program articles, citing as examples those of Honduras, Guatemala, the Philippines, and Thailand. The GAO noted US officials stated (1) preparing the inventories was difficult and time-consuming, (2) host governments have no incentives for following inventory requirements, and (3) it is not always feasible to inventory because of the lack of a complete and accurate list of the equipment provided before 1982. The GAO observed that the DoD does not have complete and accurate data on the type, condition, location, and value of items provided to particular countries. The GAO asserted, however, that there could be some sensitive or lethal items, such as aircraft or missiles, which the United States would want to continue monitoring. The GAO concluded that the costs versus benefits of some type of continued monitoring must be assessed. (pp. 5-6, pp. 28-32/GAO draft report)

DoD Response: Partially concur. The DoD has no basis on which to question observations or statements reported. The Department also agrees that information showing precisely which items are still in the hands of Military Assistance Program item recipients is not readily available for many countries. Pre-1982 Military Assistance Program items are becoming less and less important from an accounting standpoint, however, and the DoD and the Congress are in agreement that the legislation calling for extra controls on pre-1982 MAP items should be updated.

Now on pp. 4-5 and 25-28.

See GAO comment 10.

Even though it is allowed by legislation, there is little benefit in singling out items for special accounting controls based on old age (pre-1982) and the source of funding (Military Assistance Program). The subjective benefits of embracing special controls, such as marginal accounting improvements, are offset by detractors, such as poor use of US resources and possible worsened relations with countries. When taken as a whole, the value of pre-1982 Military Assistance Program items at the time of transfer is far more than their monetary value or usefulness today. Another assessment is not needed to determine there is no advantage in additional or unique controls for these old items.

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MATTERS FOR CONSIDERATION BY THE CONGRESS.

SUGGESTION 1: The GAO suggested that the Congress modify the Arms Export Control Act, as amended, to require the Secretary of Defense to implement monitoring and oversight actions appropriate for each recipient country to ensure that existing conditions pertaining to use, security, and transfer of US-funded items are met. (p. 6/GAO draft report)

Now on pps. 6 and 23.

DoD Response: Nonconcur. The DoD does not argue that it must monitor the actions of recipient countries to ensure existing conditions pertaining to use, security, and transfer of US-funded items are met. It is the DoD position, however, that those actions can and are being carried out under the existing legislation; therefore, there is no need for additional legislation. Present legislation allows the DoD to strengthen military-to-military and other government-to-government ties, as opposed to undermining those ties through an unnecessarily intrusive and paternalistic approach.

See GAO comment 3.

SUGGESTION 2: The GAO suggested that the Congress modify the Arms Export Control Act, as amended, to require as a condition to US military grant aid that recipient countries permit review by US representatives of (1) their internal control systems and (2) the accountability, the disposition, and the use of US-funded items. (p. 7/GAO draft report)

Now on pp. 6 and 23.

DoD Response: Nonconcur. (See the DoD response to Suggestion 1 above.)

SUGGESTION 3: The GAO suggested that the Congress modify the Arms Export Control Act, as amended, to specify that a recipient country must maintain adequate physical security of all US-funded defense articles, including classified and unclassified items. (p. 7/GAO draft report)

See GAO comment 3.

Now on pp. 6 and 23.

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See GAO comment 5.

DoD Response: Nonconcur. Current agreement requirements already prohibit unauthorized use or release of US-origin items which establish basic security standards (see DoD response to Finding B). Additional steps to dictate US-style storage facilities for all items could create an imbalance whereby resources are directed toward infrastructure, while immediate operational needs are not met. Development of infrastructure as operational conditions permit and as the country defense establishment matures appears to best meet country needs while best serving the interests of the United States.

It is the DoD position that the suggested legislative changes will not improve utilization of US-funded items transferred under the AECA.

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RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Director, Defense Security Assistance Agency, to develop accountability standards and revise its Security Assistance Management Manual to clarify what monitoring is required to provide reasonable assurances recipient countries are meeting conditions set forth in the legislation. The GAO specified that, in applying the standards, the Security Assistance Organizations should take into account, among other things, (1) the adequacy of recipient country internal control systems, (2) the vulnerability of items to misuse and diversion, and (3) the sensitivity and lethality of items. (p. 7, pp. 26-27/GAO draft report)

Now on pp. 5 and 23.

DoD Response: Partially concur. It is the DoD position the Security Assistance Management Manual already is clear in defining the responsibility to monitor country use of US-funded equipment. The DoD agrees, however, that some reiteration on monitoring and oversight responsibilities would be useful. The Defense Security Assistance Agency will issue direction to all Security Assistance Organizations emphasizing published guidance on monitoring and oversight. That direction will be issued by the end of October 1991.

See GAO comment 13.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Director, Defense Security Assistance Agency, to require each Security Assistance Organization to prepare a status report on the types, the quantity, the condition, and the location of major military end items provided under the pre-1982 Military Assistance Program, to be used in determining what level of monitoring is appropriate, particularly for items that are sensitive, lethal, or vulnerable to misuse. (p. 2, p. 32/GAO draft report)

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See GAO comment 10.

DoD Response: Nonconcur. The Defense Security Assistance Agency has information concerning items provided under pre-1982 Military Assistance Program. The Department of State may approve disposal of those items, including retransfer to other eligible countries, without involving the DoD. When the DoD is involved, items are disposed of without being dropped from the pre-1982 Military Assistance Program transfer list, since matches are often not possible (e.g., in cases of disposal of various demilitarized US-origin items as intermingled scrap, which is not traceable to the original transfer). Information concerning items provided over the past four decades is of limited usefulness in determining what is held today. The Security Assistance Offices have also experienced difficulties in maintaining their Military Assistance Program item status, especially in countries where continuity has been lost in the annual inventories. The recommendation again advocates special countrywide inventories in dozens of countries for old items solely on the basis of fund source. That would impose a burden on Security Assistance Office and country personnel disproportionate to any potential benefit. Current Foreign Assistance Act legislation, which requires extra controls for pre-1982 Military Assistance Program items, is being changed. In the meantime, it appears most effective to treat those items in the same manner as other (generally newer and more sensitive, lethal, and vulnerable) US-origin defense articles.

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GAO Comments

The following are GAO's comments to the letter from the Department of Defense dated September 12, 1991.

1.Despite the Defense Department's description of the strength of U.S. controls, they did not prevent weaknesses in recipient countries internal controls and the occurrence of misuse and diversion of security assistance items as discussed in this report.

2.We have not advocated increased staffing. Rather, we seek to have the Department of Defense better utilize its available resources. What we are proposing is a mechanism that provides reasonable assurances that the appropriate conditions are being met by oversight and monitoring activities that systematically take into account the adequacy of the recipient country's internal controls, the vulnerability of the items to misuse and diversion, and the sensitivity and lethality of the items. In other words, we are calling for using accountability standards and sound judgment to most effectively use available resources. The current ad hoc way in which in-country officials have determined what monitoring and oversight they will do as a secondary duty does not provide the reasonable assurances that are needed.

3.The Department's comments seek to transform our concern about the lack of U.S. oversight and monitoring into an improper characterization of our proposal as "intrusive U.S. accounting measures." If the U.S. government does not preserve the right to observe item use at the outset, then recipient countries will likely object to some subsequent monitoring effort. On the other hand, if the U.S. right to observe is established at the outset, then the recipient countries will likely see this as a necessary precondition for being granted military items free of charge.

The Department's agreement that it should monitor actions of recipient countries and its assertion that it does not want it to be a requirement are contradictory. We believe that additional legislation would place greater emphasis on accountability and controls and would provide leverage to ensure that U.S.-supplied items are not used for unauthorized purposes. This is particularly important given that most of the recent security assistance has been in the form of grants or forgiven credits, which is a form of a grant. If the United States is providing assistance on a grant basis, as opposed to host-country funded foreign military sales, we believe that the legislation should strengthen the United States' ability to ensure that conditions on the use, security, and transfer of U.S.-funded items are met. Our review includes evidence that some security assistance funded items have been misused.

4. Without adequate monitoring, the United States will not know whether the conditions are being met.

5. We deleted sections of the draft report that disagreed with the Defense Department's interpretation of legislation requiring recipient countries to agree to provide security to U.S.-funded items. The Defense Department's interpretation is that the provision pertains to classified items, not to other items. We found nothing in the legislative history that clearly specified if the provision applied to only classified items or all items. Although we do not disagree with the Defense Department's interpretation, we believe that the Congress may wish to enact legislation that would require recipient countries to agree to provide adequate security to both classified and unclassified U.S.-supplied defense items.

Moreover, in our report, we never suggested that recipient countries should be required to implement U.S.-equivalent storage facilities. However, we did suggest that military aid items receive adequate physical security. Items that are left out in the open and unguarded are vulnerable to theft. Therefore, we suggested that some type of control procedures be prescribed and executed to provide some reasonable assurance that items are being secured.

6. We have added additional portions of the Security Assistance Management Manual cited by the Defense Department that describes a Security Assistance Organization's responsibility to observe and report on a host country's use of U.S.-provided defense items as a secondary duty.

7. This portion of the Security Assistance Management Manual applies to countries that received grant aid material before fiscal year 1982, not to countries that have received military aid since then. Therefore, it is not relevant to the discussion.

8. Our review showed that there is no criteria/standard as to how, when, and to what extent end-use monitoring is to occur and that monitoring is performed as a secondary duty. Furthermore, instances of misuse of military aid indicate that the United States does not have reasonable assurance that end-use accountability and compliance with military aid conditions are achieved.

The reconciliation process, following discovery of inventory discrepancies, was not used in the cases we examined during our spot checks. Officials from the host country and the Security Assistance Organization

speculated on the reasons for the discrepancies but could not determine if inventory records were inaccurate or if a theft had occurred.

9. Our report includes a discussion of the Defense Department's concern regarding establishment of stronger U.S. oversight. However, our report does not call for additional studies as the Department implies. Our review indicates that problems exist and the Department's assertion that its limited monitoring as a secondary duty is the proper balance of costs and benefits is not correct in our view.

10. During our review, top officials from the Defense Security Assistance Agency told us that the Defense Department would seek repeal of section 623(a)(3), which requires U.S. supervision of end-item use. There may be some sensitive and/or lethal items, such as aircraft and missiles, which warrant continued monitoring, but the Defense Department does not have complete and accurate data on the type, condition, location, and value of items provided before fiscal year 1982. Therefore, in our draft report, we recommended that the Defense Security Assistance Agency prepare a status report on military aid items provided before fiscal year 1982 to help determine what level of oversight was warranted.

In commenting on our draft report, the Defense Department said it had reached agreement with key congressional committees that the section would not be repealed. Instead, the legislation would be modified to require monitoring, not supervision. We agree with the Defense Department's position that monitoring should generally focus on military aid items that are sensitive, lethal, and vulnerable, whether they were provided before or after fiscal year 1982. Thus, because the Defense Department is no longer seeking repeal of the legislation and it plans to monitor items provided before fiscal year 1982 in the same manner as other, more recent, U.S.-funded items, we have withdrawn the recommendation from our report.

However, our recommendation calling for the Defense Department to develop accountability standards and revise its Security Assistance Management Manual to clarify what monitoring is required to provide reasonable assurance that recipient countries are meeting conditions set forth in legislation applies to both pre- and post-1982 military assistance.

11. The risks of diversion of military items are substantial. Our report notes several instances that we would not characterize as "minor"

where U.S. military assistance was or may have been diverted. For example, the Salvadoran Air Force transferred U.S.-funded fuel, without U.S. consent, to air crews involved in the Contra supply operations, and the diversion of helicopter parts provided to the Philippines has been a continuing concern.

12. Our report notes Defense Department officials' concern that host country governments may view U.S. attempts to increase oversight as a breach of sovereignty that could harm good relations with recipient countries, but we do not find these arguments persuasive. We believe that the fact that the United States is providing this assistance through grant funding creates a responsibility for the United States to monitor how military items are being used. Host country concern over the intrusiveness and/or inconvenience of any U.S. oversight should be tempered by the fact that these items were provided free of charge.

Furthermore, the development of standards specifying the level of monitoring appropriate for conditions in recipient countries and incorporating the assistance of the host country in a systematic way could considerably lessen, if not eliminate, the perception of U.S. intrusiveness. Moreover, the level of monitoring that the United States performs in some of its Agency for International Development programs shows how the United States and recipient countries can work together in an effort to provide reasonable assurance that grant aid is not misused.

13. The Defense Department's decision to provide field offices additional guidance emphasizing monitoring and oversight is a positive step in response to our recommendation. Because the Defense Department has not prepared this guidance, we could not determine if the guidance would establish accountability standards and adequately describe the desired amount and types of U.S. oversight.

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